



STATE OF WASHINGTON

**LAW ENFORCEMENT OFFICERS' AND FIRE FIGHTERS'
PLAN 2 RETIREMENT BOARD**

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REGULAR BOARD MEETING
August 23, 2006

The Law Enforcement Officers' and Fire Fighters' (LEOFF) Plan 2 Retirement Board met in the Boardroom of the Washington State Investment Board located at 2100 Evergreen Park Drive S.W., Olympia, Washington on August 23, 2006.

Board Members Present:

Kelly Fox, Chair
Jack Simington, Vice Chair
Pat Hepler
Jeff Holy
Mark Johnston
Clint Olson
Glenn Olson
Representative Geoff Simpson

Staff Present:

Steve Nelsen, Executive Director
Shawn Merchant, Deputy Director
Jessica Burkhart, Executive Assistant
Jeralyn Faulhaber, Administrative Services Manager
Tim Valencia, Senior Research and Policy Manager
Greg Deam, Senior Research and Policy Manager
Linda Sullivan-Colglazier, Assistant Attorney General

Guests:

Matt Smith, State Actuary
Marilyn Oliver – Principal and Actuary, Oliver Consulting
John Bartel – Bartel Associates, LLC

Board Members Not Present:

Greg Cuoio
Michael Edwards
Senator Linda Evans Parlette

Kelly Fox, Chair, called the meeting of the Law Enforcement Officers' and Fire Fighters' Plan 2 Retirement Board to order at 9:44 a.m. The board took a moment of silence to honor Joselito Barber who died in the line of duty since the last time the members met.

1) July 26, 2006 Board Meeting Minutes

It was moved that the July 26, 2006 Board meeting minutes be adopted as presented. Seconded.

MOTION CARRIED UNANIMOUSLY**2) Preliminary Results of Actuarial Valuation – Matt Smith, State Actuary**

Matt Smith, State Actuary presented the *Preliminary Results of the Actuarial Valuation* to the Board. He also provided input on the 2005 results, actuarial liabilities, participant data, and current LEOFF 2 assets. The Board will adopt basic rates for the 2007-09 biennium at the September 13, 2006 meeting.

3) Preliminary Results of Actuarial Valuation Audit –**Marilyn Oliver, Oliver Consulting and John Bartel, Bartel Associates, LLC**

Marilyn Oliver, Principal and Actuary for Oliver Consulting and John Bartel, President of Bartel and Associates presented the Preliminary Results of the *Actuarial Valuation Audit* to the members. Ms. Oliver reviewed the entire audit process and explained the items that are not reviewed. She also described the changes that have taken place since the last statutory valuation she reviewed on September 30, 2003.

4) Alternate Revenue Source - Initial Consideration Follow-Up, Tim Valencia

Tim Valencia, Senior Research and Policy Manager provided an Initial Consideration Follow-Up and presentation on the topic of *Alternate Revenue Source*. Mr. Valencia explained that LEOFF Plan 2 currently has two sources of revenue; contributions and investments earnings. He then briefed the Board on three possible options for an Alternate Revenue Source.

- Firemen's Pension Fund
- Fire Insurance Premium Tax
- Property Tax Levy ("Millage")

It was moved that the topic of Alternate Revenue Source continue to the Preliminary Report stage and be brought back to the September meeting. Seconded

MOTION CARRIED UNANIMOUSLY**5) Retiree Health Care Insurance – Initial Consideration Follow-Up, Tim Valencia**

Tim Valencia, Senior Research and Policy Manager presented an Initial Consideration Follow-Up Report and presentation on *Retiree Health Care Insurance*. Mr. Valencia explained that LEOFF Plan 2 currently does not provide health care benefits. He also provided background information on this issue which included survey results and a comparison of other states. Mr. Valencia went on to review the Public Employee Benefit Board (PEBB) retiree rates and the difference between explicit and implicit subsidies.

It was moved that the topic of Retiree Health Care Insurance continue to the Preliminary Report stage and be brought back to the September meeting. Seconded

MOTION CARRIED UNANIMOUSLY

6) Administrative Update

Select Committee on Pension Policy (SCPP) Update

Steve Nelsen, Executive Director reported that the topic of gain sharing was discussed at the latest SCPP meeting.

Pension Funding Council Workgroup Update

Mr. Nelsen briefed the members on the progress of the Pension Funding Council and noted that Shawn Merchant, Deputy Director will be attending the next meeting.

7) Strategic Plan Adoption

The Board members reviewed the revisions made to the Strategic Plan since the July Board meeting.

It was moved that the 2006-2010 Strategic Plan revised at the July 26, 2006 Board meeting be adopted as presented. Seconded.

MOTION CARRIED UNANIMOUSLY

8) Deferred Compensation (OSA Costs) – Preliminary Follow-Up Greg Deam

Greg Deam, Senior Research and Policy Manager provided the Board with a clear definition of what is included in basic salary with regard to *Deferred Compensation*. Mr. Deam reviewed policy issues and costs, as well as the following policy options.

1. Include employer contributions to a 457 deferred compensation plan as basic salary, except in lieu of Social Security
2. Include employer contributions to a 457 deferred compensation plan as basic salary, no exceptions.
3. Add 401(a) and 401(k) defined contribution plans to the definition basic salary and include employer contributions from a 457, 401(a) or 401(k) deferred compensation plan as basic salary.

The Office of the State Actuary provided a memo with projected costs related to Deferred Compensation.

It was moved that policy option #2 (Include employer contributions to a 457 deferred compensation plan as basic salary, no exceptions) be brought back to the Board as a Final Report to the October meeting. Seconded.

MOTION CARRIED UNANIMOUSLY

9) Actuarial Reductions – Initial Consideration, Steve Nelsen

Steve Nelsen, Executive Director presented an Initial consideration on Actuarial Reductions. Mr. Nelsen's report included how the Department of Retirement Systems applies early retirement actuarial reductions when there is a disability or duty related death.

It was moved that the topic of Actuarial Reductions move forward to the Preliminary proposal stage and be brought back to the September meeting. Seconded.

MOTION CARRIED UNANIMOUSLY

The Board moved to write a letter to the Governor expressing their dissatisfaction concerning the way actuarial reductions were interpreted in a recent disability case by the Governor's appointee at the Department of Retirement Systems. Seconded.

MOTION CARRIED UNANIMOUSLY

10) Agenda Items for Next Board Meeting

Mr. Nelsen reviewed the *Agenda Items Calendar* for the upcoming meeting. The members agreed to defer the topics of Smoothed Interest Rate Assumption and DROP Plans to the next interim. \$150,000 Death Benefit and Temporary Duty Disability will be moved from September to the October meeting.

Next Meeting

The next meeting of the LEOFF Plan 2 Retirement Board is scheduled for September 13, 2006 from 9:30 a.m. – 3:00 p.m. at the Washington State Investment Board located at 2100 Evergreen Park Drive S.W., Olympia, Washington 98502.

There being no further business, the meeting adjourned at 2:25 p.m.